FOCUS ON THE FISC

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Zachary Rau, Fiscal Analyst
Monique Appeaning, Fiscal Analyst/Special Projects Coordinator

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This issue contains information from the recent REC meeting, the FY 16 replacement revenues, the FY 16 Mid-Year Reduction fund sweep, the Quality Jobs Program and the collection of Office of Motor Vehicles fees. Additional articles include state employee furloughs, coastal restoration projects, early childhood education program payments and an update on the Workforce and Innovation for a Stronger Economy (WISE) initiative.

The LFO would like to congratulate General Government Section Director Travis McIlwain on his appointment as Associate Commissioner for Finance and Administration at the Board of Regents. Fiscal Analyst Alan Boxberger has assumed the General Government Section Director position. We also are pleased that Willis Brewer is now a fiscal analyst with the office.

John D. Carpenter

FOCUS POINTS

Revenue Forecast Downgrade: REC meeting of 2/10/16

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The Revenue Estimating Conference (REC) met on February 10, 2016 and reduced overall state tax revenue forecasts for the current fiscal year (FY 16) and the ensuing fiscal year (FY 17) relative to the November 16, 2015 forecast. The result of the latest meeting was to reduce the state general fund revenue forecast by $570 M for FY 16 and $744 M for FY 17. These forecast downgrades are the result of continued weakening in oil and natural gas prices, as well as weakness in other revenues associated with the state's economy, especially corporate taxes, the personal income tax, and the general sales tax. Table 1 below displays the major forecast revisions for FY 16 and FY 17 as of the February 10, 2016 REC meeting compared to the previous forecasts in place. The combined downgrades of the November 2015 REC and the February 2016 REC are $941 M for FY 16 and $1.066 B for FY 17. In addition, for FY 16, $28.2 M from the Budget Stabilization Fund was recognized by the REC pursuant to the utilization of these funds in resolving the FY 16 mid-year deficit.

The total tax revenue downgrades are largely the effect of reductions in mineral revenues, corporate taxes, the personal income tax, and the general sales tax. These reductions are partially offset by

MAJOR REC REVENUE FORECAST REVISIONS
February 10, 2016

Table 1

Revenue Source (millions $)	FY16 As of 11/16/15	FY16 As of 2/10/16	FY16 Forecast Change	FY17 As of 11/16/15	FY17 As of 2/10/16	FY17 Forecast Change
Personal Income	$3,054.8	$2,982.9	-$71.9	$3,221.5	$3,071.3	-$150.2
Sales, General	$2,872.2	$2,704.8	-$167.4	$2,840.6	$2,700.5	-$140.1
Corporate	$588.1	$359.3	-$228.8	$621.5	$413.2	-$208.3
Severance	$468.0	$420.2	-$47.8	$444.0	$278.1	-$165.9
Royalty	$227.9	$182.6	-$45.3	$275.2	$176.7	-$98.5
Gaming	$921.7	$921.8	$0.1	$900.7	$906.6	$5.9
Sales, Vehicle	$411.6	$407.2	-$4.4	$427.7	$424.6	-$3.1
Motor Fuels	$621.8	$616.9	-$4.9	$629.9	$624.1	-$5.8
Premium Tax	$541.7	$529.1	-$12.6	$555.8	$541.5	-$14.3
Earnings	$23.0	$23.0	$0.0	$21.0	$21.0	$0.0
All Other	$1,233.0	$1,238.7	$5.7	$1,225.0	$1,242.0	$17.0
Total Tax	$10,963.8	$10,386.5	-$577.3	$11,162.9	$10,399.6	-$763.3
Less Dedications	$2,482.2	$2,475.0	-$7.2	$2,179.7	$2,160.2	-$19.5
General Fund	$8,481.6	$7,911.5	-$570.1	$8,983.2	$8,239.4	-$743.8
Budget Stabilization Fund		$28.2				

upgrades to other revenue sources such as the tobacco tax, lottery proceeds, 8g receipts, and vehicle license tax, but these upgrades are very minor. Decreased dedications diminish some of the downgrades, with the net of all revisions reflected in the general fund bottom line above.

While the oil price forecasts adopted in November 2015 appeared reasonable at the time, and incorporated a substantial drop in prices from the summer of 2015, it eventually became obvious that price forecasts were going to have to be downgraded again. The oil price forecast for FY 16 is now $37.12/bbl, and for FY 17 $30.00/bbl. These are price forecast drops of $24/bbl for both FY 16 and FY 17, from the November forecast. Since the fiscal year began, oil price forecasts have been reduced by $39/bbl for FY16 and $35/bbl for FY 17. Natural gas prices were also revised down to $2.09/mcf for FY 16 and $2.19/mcf for FY 17; 99¢/mcf and 1.29¢/mcf lower than forecast at the beginning of the fiscal year. These price downgrades are reflected in mineral revenue reductions of $93 M and $264 M, for FY 16 and FY 17, respectively, for the February forecast, and $224 M for FY 16 and $429 M for FY 17 since the beginning of the fiscal year.

The weakened energy sector is certainly negatively affecting the overall economy as well, contributing to poorer performance in corporate taxes, personal income taxes, and general sales taxes. In addition, there are other issues with regard to these taxes that were discussed at the REC. Corporate tax weakness may be the result of a variety of issues, including uncertain reductions to credits and deductions enacted in the 2015 session, dramatic and prolonged oil and gas price weakness, a strengthening dollar foreign exchange rate, and successive amnesty programs (fiscal years 2010, 2013, 2014, and 2015) that may be suppressing corporate collections as liabilities that would have normally been received as base collections in FY 16 were collected as amnesty receipts in earlier periods. With respect to the reductions to credits and deductions enacted in the 2015 session, the first months expected to show any effects in net receipts are November and December. Through January, the cumulative position of the net corporate tax is a negative $210 M, implying that a nearly $800 M swing in net collections would be required to meet the November 2015 forecast. This seems unlikely in light of the fact that the estimated corporate revenue gains from the measures enacted in the 2015 session are only slightly over $400 M. Whatever the revenue effects of those measures will ultimately be, they will not show up until the spring tax filing months of 2016, when one-half to two-thirds of corporate collections show up anyway.

With regard to the general sales tax, the suspension of exemption to 1% of state tax levy on business purchases of utilities is generating about 40% less revenue than expected. Much lower energy prices and slowing economic activity are contributing to this underperformance. In addition, about 40% of the receipts received are being paid under protest and being placed in escrow, pursuant to a legal challenge of the constitutionality of the tax. By mid-March the State should know whether taxpayers are going to continue their dispute through appeal or drop the dispute. However, negative employment growth and slowing income growth is the root of the weakness in the underlying base of sales tax collections, and is the major contributor to the downgrades of this tax.

The personal income tax was also downgraded to a very low 2% base growth, again, the result of the state's deteriorating employment and income situation. Boosting the growth by a point or so is the estimated effects of 2015 legislation limiting the credit allowed for taxes paid to other states, and prohibiting the claim of a child credit if a deduction for private school tuition is taken.

Only minor adjustments were made to gaming taxes as the Golden Nugget boat in Lake Charles has been fully annualized into the forecasts. Lottery projections for FY 16 now incorporate all transfers made in calendar year 2015 to support the FY 16 budget, including transfers that were mandated in the 2015 session of $5.9 M from reserves and $20 M from unclaimed prizes. Sales and transfers associated with the recent extremely large Powerball jackpot are incorporated into the FY 17 forecast, as these transfers will be made in calendar year 2017. The incremental effect of that jackpot may be some $17 M. For the rest of 2016 and beyond lottery activity is assumed to settle back to its normal level, and extreme jackpots are not assumed in the forecasts. Finally, the projection for land-based casino receipts continues to reflect about $8 M of downgrade associated with the distinct step down in gaming activity subsequent to the New Orleans indoor smoking ban that went into effect in April of 2015.

Premium tax receipts (excise license tax) were also downgraded, reflecting a weakening economy. However, further expansion of the Bayou Health Medicaid Managed Care Program is still built into the forecast. These premiums are subject to tax but the resulting tax proceeds, some $101 M expected, are fully dedicated to support of the Medicaid program, and do not result in additional general fund resources for other programs of the state budget.

Along with forecast reductions for FY 16 and FY 17, the entire forecast horizon baseline was reduced, reflecting materially lower mineral prices, as well as considerably weaker employment and income prospects for the near-term. Relative to the November 2015 forecast, general fund projections are now lower by $945 M in FY 18, $1.074 B in FY 19, and $1.258 B in FY 20.

Out-year forecasts have to be taken with some caution, but risks to this new forecast path are likely weighted to the downside. (Oil and natural gas prices stay at depressed levels for a considerable time or even go lower, as evidenced by price movements since mid-2014.) In addition, the U.S. economy has yet to exhibit consistent robustness, and the world economy continues to struggle. While the revenue raising legislation enacted in the 2015 session dealt largely with longstanding provisions with considerable historical data available, the focus of the bills was largely the FY 16 budget and, by design, 60% of the expected revenue from these bills falls away by FY 20. Also, the three year expiration of some of these measures and the taxpayer recoupment of certain tax liability increases associated with some of the bills adds substantial uncertainty to the amounts of additional revenue expected in any particular year.

GENERAL GOVERNMENT

Update: Replacement Revenues in current year budget
Alan Boxberger, Gen. Govt. Section Director, boxbergera@legis.la.gov *(J. Travis McIlwain)*

Table 2 below is an updated list of the significant potential FY 17 financing replacements that will have to be made as a result of the FY 16 budget as it currently exists. As noted during the 2016 Legislative Session by the Legislative Fiscal Office, upon enactment of the FY 16 budget there was approximately $542 M of replacement revenues in FY 16 that will have to addressed in FY 17. However, due to the Governor's FY 16 Mid-Year Deficit Reduction Plan adopted in November 2015, this list has grown by approximately $285 M. Therefore, there is approximately $830 M of revenues funding expenditures in FY 16 that will have to be replaced with another resource in FY 17 or those expenditures will have to be reduced.

Table 2

State Agency	Potential Financing Replacement in FY 17 (in millions)	FY 16 Funding Sources
Medicaid Program	$52.0	2013 Tax Amnesty Fund
Medicaid Program	$114.6	Overcollections Fund (Various Sources)
Debt Defeasance - SGF	$125.0	FY 14 Cash Position
Bond Premium - SGF	$29.0	Net Bond Premium from 2014 D Sale
Bond Premium - SGF	$37.7	Net Bond Premium from 2015 A&B Sale
WISE	$24.3	CDBG Hurricane Disaster Recovery Funds
HCR 8 - SGF*	$103.0	Suspends business utilities exemptions from adoption to 60 days after the 2016 Regular Legislative Session.
Riverboat Gaming Enforcement Fund transfer into SGF	$18.8	Act 121 (HB 566) transfer into the SGF (fund sweep)
LA Fire Marshal Fund transfer into SGF	$4.0	Act 121 (HB 566) transfer into the SGF (fund sweep)
Environmental Trust Fund Transfer into SGF	$2.0	Act 121 (HB 566) transfer into the SGF (fund sweep)
Hazardous Waste Site Clean up Fund transfer into SGF	$2.5	Act 121 (HB 566) transfer into the SGF (fund sweep)
Insurance Verification Fund transfer into SGF	$3.0	Act 121 (HB 566) transfer into the SGF (fund sweep)
Minimum Foundation Program (MFP) (Lottery Proceeds Fund)	$5.9	Lottery Reserves (LA Lottery Corporation)
Minimum Foundation Program (MFP) (Lottery Proceeds Fund)	$20.0	Unclaimed prizes (LA Lottery Corporation)
TOTAL (Post Session)	**$541.8**	
Rainy Day Fund Use	$28.2	Governor's Mid-Year Deficit Elimination Plan
FEMA Reimbursements	$17.4	Governor's Mid-Year Deficit Elimination Plan
Prior Year Funds Sweeps Not Yet Collected	$10.3	Governor's Mid-Year Deficit Elimination Plan
Backfill: DHH Federal Resources	$132.6	Governor's Mid-Year Deficit Elimination Plan
Backfill:Transocean Funds (BP Settlement)	$4.0	Governor's Mid-Year Deficit Elimination Plan
Backfill: Various Transportation Funds	$47.6	Governor's Mid-Year Deficit Elimination Plan
Backfill: 2013 Tax Amnesty Fund	$23.0	Governor's Mid-Year Deficit Elimination Plan
Backfill: Other Various Funds Sweeps	$21.6	Governor's Mid-Year Deficit Elimination Plan
TOTAL (Post Mid-Year Solution)	**$826.5**	

**Revenue generated by HCR 8 in FY 16 appears likely to be less than listed above. An official determination of this will ultimately be made by the REC.*
Note: These replacement revenues will likely be accounted for in the FY 17 Continuation Budget, which will be presented to the JLCB at the end of January.

FY 16 November Mid-Year Plan, Funds Sweeps Update
Alan Boxberger, Gen. Govt. Section Director, boxbergera@legis.la.gov *(J. Travis McIlwain)*

A major component of the FY 16 mid-year deficit elimination plan included the use of approximately $89 M of funds sweeps to solve the $487 M projected SGF imbalance. After the mid-year plan's statutorily dedicated authority reductions, resources are supposed to (*continued on page 4*)

be available as a result of these reductions for transfer to the SGF to close the deficit. However, to date the State Treasury has only transferred approximately 15%, or $13 M, of these resources. R.S. 39:75(C)(2)(e) allows the Treasury to transfer the mid-year fund reductions from the statutorily dedicated fund to the SGF to solve a deficit. Due to the State Treasury's policy of not sweeping funds until the current year appropriation is met and/or due to funds not actually being available for transfer, not all of these funds sweeps have been transferred to the SGF to date. According to information provided by the Treasury, approximately 85% of these funds sweeps have not been transferred, or approximately $76 M.

Some of the major funds sweeps associated with the plan that have not yet occurred include:

- $10.2 M – Prior FY 15 Funds originally intended to solve the FY 15 Mid-Year Deficit, but have not been transferred to date;
- $6.5 – Coastal Protection & Restoration Fund;
- $46 M – Transportation Trust Fund

Note: The $28.2 M from the Budget Stabilization Fund proposed for use within this plan has been transferred to the SGF.

Collection of the Office of Motor Vehicles Fines

Deborah Vivien, Economist/Fiscal Analyst, viviend@legis.la.gov

Last fall, many citizens received notices from the Office of Motor Vehicles (OMV) outlining a potential liability of reinstatement fees that are owed due to a prior lapse in automobile insurance coverage. The notice stated that any debt not paid within 60 days of the first notice would be referred to the Office of Debt Recovery (ODR) within the Department of Revenue (LDR) with a 25% fee added to the amount due, apparently without deference to further judicial review. The OMV collected about $18.7 M from these mailings and referred 556,840 accounts to ODR (individual liability increased to the maximum of $525 per account or $292 M plus the ODR fee of 25% or $73 M for a total referral of $365 M).

As a result of Act 414 of 2015, final debt at the OMV is defined in R.S. 32:8(A)(3) this way: "'Final' means the amount due is no longer negotiable and that the debtor has no further right of administrative or judicial review." However, according to R.S. 32:863.1(C)(1)(b) as amended by the same Act, after 60 days when the debt is presumably under the authority of the Office of Debt Recovery, "the fees imposed in this Section (*by DPS*) shall be owed even if the owner subsequently provides proof the motor vehicle was insured, and all such fees shall be considered final delinquent debt."

The testimony of DPS officials before the Cash Management Review Board revealed that a debtor who disputes the fine with DPS but is rejected will still be referred to ODR after 60 days, even though further judicial review is available through District Court. This final debt is immediately subject to an income tax refund offset (state and federal), and presumably asset capture, including cash from a bank account, per the ODR collection tools. It appears that neither ODR nor DPS has the authority to waive this debt and the accompanying ODR fee, even with proof that the original liability did not exist or in light of further judicial review.

If the provisions of Act 414 are enforced according to the language, it appears that collections of the debt referred to ODR by DPS could be larger than first estimated because ODR is obligated to treat the debt as final, regardless of the legitimacy of the underlying liability. With nearly $300M in fines transferred to ODR, an automatic retention of 2015 income tax refunds flagged by this final debt obligation will apparently be the first real indication of how much the state will collect using ODR collection tools, notwithstanding the immediate ability to garnish bank accounts. It is not known how much of the debt is reasonably collectible, though ODR estimates that about $14.4 M will be made available in FY 16, in addition to the funds collected prior to ODR referral. The REC did not recognize any funds in addition to those already collected in keeping with historical methodology. In addition, it is not clear how further judicial review will be accommodated once the debt is referred to ODR.

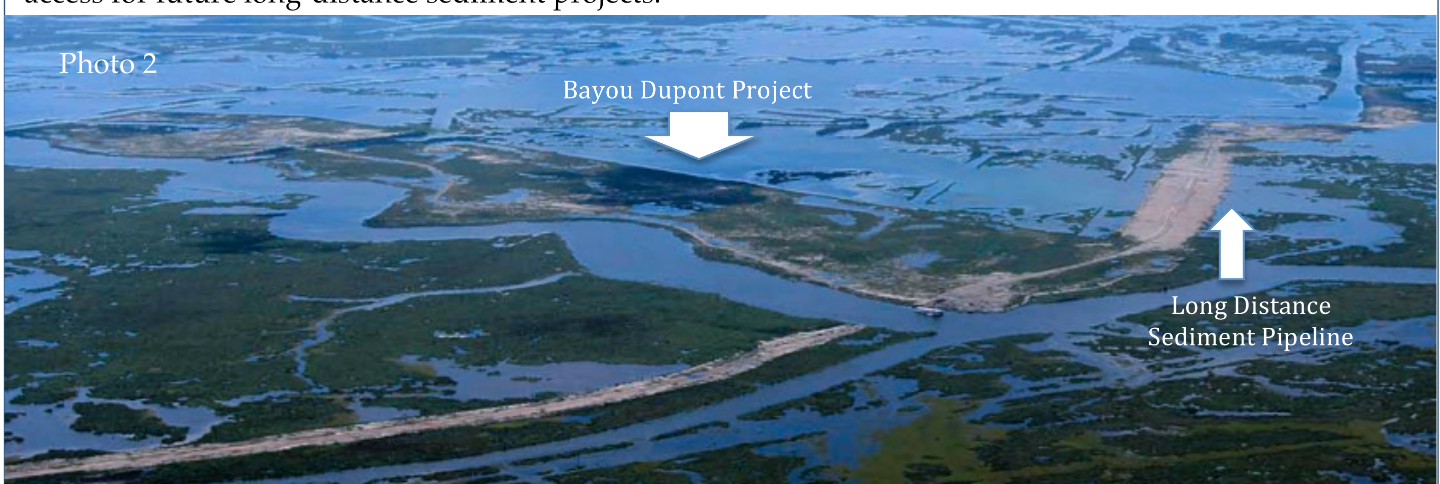
Per the statute, any collections (except the ODR fee) will be deposited into the Debt Recovery Fund with the first $25M earmarked for return to DPS upon appropriation. Any remaining collections are available to be distributed to other areas of the budget by appropriation from the Debt Recovery Fund. The REC has currently recognized $21.5 M in FY 16 and $0 M in FY 17 as anticipated revenue in the Fund. FY 16 appropriations total $33 M with $16 M in the DPS operating budget and $17 M in the DPS capital budget. However, OMV has recently been made an agent of LDR and will collect the debt on behalf of ODR in its maximum amount, including the ODR fee. It is not clear whether the funds now being collected by OMV will also flow through the Debt Recovery Fund.

Mississippi Long Distance Sediment Pipeline and Bayou Dupont Project
Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

The Long Distance Sediment Pipeline (LDSP) is a marsh creation project in Jefferson and Plaquemines Parishes that utilized sediment sources from the Mississippi River (Photo 1) to create and nourish marsh, begins restoration of the Barataria Landbridge, and allows for a reusable pipeline corridor for future restoration projects. The project created and nourished approximately 415 acres of marsh and has a project cost of approximately $66.3 M. Dredging sediment for the project began in November 2014 and was completed in September 2015. This project was funded through a Coastal Impact Assistance Program (CIAP) grant ($33.6 M), which is a federal grant program and requires no state match and state surplus dollars ($32.5 M).

The Bayou Dupont Marsh and Ridge Creation Project was bid along with the LDSP since it is located along the pipeline corridor. Using sediment dredged from the Mississippi River, approximately 277 acres of sustainable marsh was created, 93 acres of marsh nourished and approximately 20 acres (11,000 linear feet) of ridge along the southern shore of Bayou Dupont was restored to further sustain the marsh. The pipeline distance from the dredge to Bayou Dupont was 10 miles. Dredging for this project began in November 2014 and was completed in March 2015. To maintain the flow of sediment to the project location, three booster pumps were used. The cost of the project was $38.3 M and was funded through the Coastal Wetlands Planning, Protection and Restoration Act (CWPPRA) program. CWPPRA is a federal program for restoration projects with a cost sharing of 15% state, 85% federal. Project submissions are evaluated and ranked on the basis of cost effectiveness, longevity, risk, supporting partnerships, public support, and conformity with CWPPRA goals.

Together the two projects (Photo 2) created 712 acres of marsh and ridges by using approximately 8.4 M cubic yards of sediment from the river. Sediment was dredged from two borrow areas in the Mississippi River. The pipeline corridor created will provide access for future projects to use sustainable sediment sources (river) to restore and nourish wetlands in an area where sediments are limited and provide an access for future long-distance sediment projects.



Act 126 of 2015 Interpretation for the Quality Jobs Program
Deborah Vivien, Economist/Fiscal Analyst, viviend@legis.la.gov

The Quality Jobs Program (QJP) pays an employee subsidy of 5% or 6% of payroll for each participating job created for 5 years (renewable for 5 more). The company must file an advance notice then has 24 months to file an application for the annual benefit, after which an application must be refiled each year that the QJP contract is in effect. Louisiana Department of Economic Development (LED) has 6 months to approve the application which means projects filing advance notice in November 2016 could receive their first payment after June 30, 2018.

Act 126 of 2015 was believed to reduce the general fund impact of the Quality Jobs Program by cutting the payroll subsidy to a base of 80% of payroll for projects filing advanced notice between July 1, 2015 and June 30, 2018. Any projects filing advance notice prior to July 1, 2015 could continue to receive the original subsidy but were only allowed to claim payments after FY 16. The Act 126 fiscal note estimated general fund impact based on the assumption that any project filing advanced notice within the time frame of the effectiveness of the law (July 1, 2015 – July 1, 2018) would be subject to lower benefits for the entire QJP contract term of that project. Thus, it was assumed that all subsequent payments for that project filing an advance notice between the relevant dates was reduced, even those made after June 30, 2018. Additionally, older projects were expected to double-up on payments in FY 17 since program payments were delayed through FY 16. This led to a $5M estimated general fund savings in FY 16 and a net SGF cost of $4M in FY 17 as older projects doubled-up on benefits and new projects were subject to the lower rate. Once the delayed payments were incorporated, FY 18 was expected to save $3 M as the reduction was implemented, with savings of $4.5 M in FY 19 and $5 M in FY 20. New projects were assumed to naturally phase into the program over numerous fiscal years based on historical construction and operational schedules.

Upon submission of promulgation documents for rules administering the program, LED has now interpreted the impact of Act 126 to potentially be minimal to the state fisc in the FY 17-FY 18 period by assuming that any annual benefit approvals made after July 1, 2018 would revert back to a base of 100% of payroll, regardless of the date advance notice was filed. This interpretation could increase the expected payment for those projects filing advance notice within the FY 16-FY18 period should they choose to delay payments to take advantage of the higher subsidies after June 30, 2018. This can be accomplished within current QJP timelines. During the debate of Act 126, had an analysis considering the start date of July 1, 2015 been applied to the advance notice filing while the end date of June 30, 2018 date been applied to the application for annual benefits, the fiscal note would have resulted in greater savings in FY 17 and FY 18 as projects delayed the applications for benefits. However, general fund program costs would balloon beginning in FY 19 as a backlog of projects applied for larger annual benefits under the higher rate structure.

Layoff Avoidance Measures: Furloughs and Work Hour Reductions

Drew Danna, Fiscal Analyst, dannad@legis.la.gov

To the extent that state agencies seek to avoid layoffs and staff reductions, agencies may look to implement furloughs and reduced work hours. The agencies enacting furloughs and work hour reductions must submit a layoff avoidance plan to the Department of Civil Service. The plan must provide the names and job titles of any employees impacted as well as any employee to be excluded and the reasons for their exclusion, the number of work hours reduced for each employee, the proposed effective dates and periods of time involved, the organizational unit, and the geographic areas impacted.

Furloughs

According to Department of Civil Service guidelines, a furlough is a mandatory, unpaid reduction of working hours for employees upon request of the state agency as part of a layoff avoidance plan. In order to be considered a furlough, the hours an employee is reduced must be taken continuously. A state employee can be furloughed for up to a maximum of 240 hours in a 12-month period with approval from the director of the Department of Civil Service. If it is determined that a furlough must be greater than 240 hours, the State Civil Service Commission can authorize furloughing employees up to 450 hours in a 12-month period with the option for even longer in extraordinary circumstances. It is important to note that if state employees are furloughed, impacted employees may be eligible to receive unemployment benefits, which could reduce the net savings to the state. Should a state employee qualify under existing unemployment standards, the employee could receive up to $247 per week in benefits.

Bi-weekly Reduction in Work Hours

Another potential layoff avoidance measure is a biweekly reduction in work hours for agency employees. If an agency decides to implement this type of action, state employees' work schedules cannot be reduced more than 16 hours per biweekly payroll period in a 12-month period. State employees who fall under a reduced hours plan are not eligible to apply for unemployment benefits.

Table 3 to the right depicts Civil Service authorization necessary for the differing layoff avoidance options above.

Table 3		
Furlough and Reduction of Work Hours For State Employees authorized in HB 1 and Ancillary Bill		
	Approval	
Maximum	CS Director	CS Commission
240 Hours	Yes	No
450 Hours	No	Yes
16-Hrs Bi-weekly	Yes	No

Potential Savings

In order to estimate potential savings, Civil Service utilized the average hourly rate of all employees of state agencies within the appropriations bills (General and Ancillary) with the exception of the Office of State Police as that authority falls under the State Police Commission. The hourly rate was then multiplied by 240 and 450 hours, respectively, and the estimates were provided to the Legislative Fiscal Office. It is important to note that this estimate accounts for potential salary savings only and does not include related benefits. Using an assumed 240-hour furlough of all eligible state employees, the state could reduce total annual expenditures by approximately $339 M, with $193.5 M in savings from classified positions and $145.4 M in unclassified positions. Assuming a 450-hour furlough, the state could save approximately $635.4 M annually, with $362.8 M in savings from classified positions and $272.6 M in unclassified. Under a 16-hour biweekly reduction plan, total annual savings would be approximately $587.4 M.

Although the potential total savings from a continuous furlough and/or bi-weekly reduction are depicted in Tables 4 and 5, there are some limitations to this approach. For example, these calculations represent a point in time as salary calculations and employee counts change on a regular basis. In addition, the total potential savings includes all means of finance including federal funds. It is unknown at this time what the specific MOF breakdown is for these projected expenditure savings. The potential salary savings may be partially offset if state agencies exempt certain employees in the layoff avoidance plan and if employees apply for and qualify for unemployment benefits while under a furlough status. Thus, the actual amount of state effort savings would be less than the total savings depicted within these tables.

Table 4		
Potential Furlough Reductions		
	Total Savings 240 Hours	Total Savings 450 Hours
Classified	$193.5 M	$362.8 M
Unclassified	$145.4 M	$272.6 M
Total	$338.9 M	$635. $ M

Table 5	
Potential 16-Hour Bi-Weekly Reduction	
Positions	**Total Annual Savings**
Classified	$335.4 M
Unclassified	$252 M
Total	**$587.4 M**

Note: State effort is defined as SGF, SGR, and statutorily dedicated funds.

EDUCATION

Early Childhood Education Programs- CCAP Provider Payments

Jodi Mauroner, Education Section Director mauronerj@legis.la.gov

Act 3 of 2012 required BESE to create an early childhood care and education network to manage and oversee all publicly funded programs that serve children from birth to age 5, and to align and raise standards across all programs including early learning centers, the Cecil J. Picard LA 4 Early Childhood Program, the Child Care Assistance Program (CCAP) funded through the Child Care Development Fund Block Grant (CCDF)), Early Head Start and Head Start. Act 898 of 2014 continued the implementation through the transfer of the CCDF Lead Agency Status from the Department of Children and Family Service (DCSF) to the Department of Education (DOE) effective 7/1/2015. DCFS will be responsible for the close out of FFY 15 (ending 9/30/15); funding priorities and budget allocations have been established by the DOE for FFY 16 (beginning 10/1/15).

DOE has implemented an increase in the CCAP provider payments based on a projected carry forward balance of approximately $30 M in CCDF funds. Depending upon the level of participation and the extent to which families are eligible to receive the full state rate, these carry forward funds may be fully expended by the end of FY 18. At that time, CCDF funds will either have to be reallocated to continue the provider payments at the increased rates for participants at the existing level; the number of participants at the new rate structure will have to be reduced; or DOE will need to identify another revenue source to replace the loss of the carry forward funds.

Child Care Development Fund Block Grant (CCDF)

CCDF block grants are awarded to states and territories in three allocations; Discretionary Funds, Mandatory Funds, and Federal Share of Matching Funds. In order to draw the full allocation of these awards, states must provide Maintenance of Effort (MOE) and certify a State Match. Award amounts have remained fairly consistent over the past six fiscal years. Table 6 below provides the federal allocation as well as the state MOE and Match funding requirements.

Table 6							
Child Care Development Fund (CCDF) Allocations							
Federal	FFY09*	FFY10	FFY11	FFY12	FFY13	FFY14	FFY15
Discretionary	$42,332,204	$42,263,944	$41,175,115	$42,490,869	$39,920,382	$42,199,233	$42,435,460
Mandatory	$13,864,552	$13,864,552	$13,864,552	$13,864,552	$13,864,552	$13,864,552	$13,864,552
Match	$24,528,630	$25,068,153	$25,683,519	$25,886,746	$25,933,929	$22,418,892	$26,161,046
Total CCDF	$80,725,386	$81,196,649	$80,723,186	$82,242,167	$79,718,863	$78,482,677	$82,461,058
State							
MOE	$ 5,219,488	$ 3,909,579	$ 5,219,488	$ 5,219,488	$ 5,219,488	$ 5,219,488	$ 5,219,488
Match	$ 9,868,551	$12,009,429	$14,693,024	$16,488,022	$16,414,094	$16,622,398	$16,000,188
Total State	$15,088,039	$15,919,008	$19,912,512	$21,707,510	$21,633,582	$21,841,886	$21,219,676
* Does not include ARRA allocations							

The Code of Federal Regulations (CFR) provides the parameters for the administration and expenditure of these funds as noted below. Per CFR, each year the state shall report the amount of the grant it is unable to obligate; these remaining funds shall revert to the federal government for reallocation to other states.

Discretionary Funds shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations at the end of the succeeding fiscal year shall be liquidated within one year. Mandatory Funds shall be obligated in the fiscal year in which the funds are awarded and are available until expended. Matching Funds (both federal and state share) shall be obligated in the fiscal year in which funds are granted and liquidated no later than the end of the succeeding fiscal year.

Based on reports provided by DCFS, the state has obligated and expended the full amount of CCDF funds over the past six years in accordance with CFR, with the exception of FY 14. For that year, the amount of $3,558,397 in Federal Match funds reverted due to the state's inability to certify the full amount of State Matching Funds. However, due to the spending timelines, the full amount of the annual CCDF award has not been fully obligated and expended before receipt of the next year's award resulting in a rolling carry forward balance.

Child Care Assistance Program (CCAP)

The Child Care Assistance Program (CCAP) helps low-income families pay for child care while working or attending school or training. Monthly payments are based on the number of hours the parents work or attend school or training, as well as the amount charged by the childcare provider, family size, and household income. Parents can select any Type III childcare center, school-based before and after school program, licensed childcare center licensed by the Department of Defense, registered Family Child Care Provider, or In-Home provider active in the CCAP provider directory. There are currently approximately 12,500 children enrolled in these child-care programs. Children are grouped into two categories; Toddler/Infant and Pre-K (3-4 Year Olds), some attend full time and others part time only, some attend during school year only and others during summer intersession as well.

Some households are categorically eligible for CCAP if they have members who are recipients of Family Independence Temporary Assistance program (FITAP) and who participate in Strategies to Empower People (STEP) Program; have children in foster care; or are experiencing homelessness. The program pays 100% of the state rate for these participants. Households that are not categorically eligible pay a co-pay of $2 or $3 depending upon their income status.

Total expenditures for subsidy payments have been reduced over the past six fiscal years, primarily as a result of the phase out of ARRA stimulus funding, reduced state general fund support, as well as the state's decision to redirect TANF funds previously used to subsidize the CCDF grant funding. Since FY 12, subsidy payments have been funded solely with CCDF funds; $46.6 M in FY 13, $36.1 M in FY 14 and $34.7 M in FY 15. The DOE FY 16 allocated budget for provider payments is $44.9 M. Included in this allocation is a proposed increase in certain provider payments.

The DOE has indicated it anticipates using unobligated CCDF funds of approximately $25 to $30 M from the FFY 16 and FFY 17 awards to pay for the increase in subsidy payments. Cost projections are based on several assumptions including; number of children (12,500), income eligibility (amount of co-pay required), and level of participation (school year only or summer intersession included). Using the maximum participation assumption of 12,500 children, participating year round, with no co-pay requirements would require an annual budget of $57.2 M or $12.2 M over the current allocated budget. Alternatively, 12,500 children participating year round, with a $3 co-payment for all participants would require an annual budget of $49.6 M or $4.7 M over the current allocated budget. To the extent unobligated carryforward funds are not available or actual expenditures equal actual revenues (projected FY 18) DOE will either have to reallocate CCDF funds currently used for other initiatives to continue the provider payments at the increased rates for participants at the existing level; the number of participants at the new rate structure will have to be reduced; or DOE will need to identify another revenue source to replace the loss of the carry forward funds.

Workforce and Innovation for a Stronger Economy (WISE) Initiative Update

Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov
Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

Funding and Expenditures

Act 803 of 2014 created the Workforce and Innovation for a Stronger Economy (WISE) Fund. The purposes of the WISE initiative are to increase degree and certificate production in high demand fields and encourage research and innovation to meet the state's future workforce and innovation needs. In FY 15, WISE was funded $40 M from the following sources: $16.85 M in SGF, $12.15 M in IAT from the Community Development Block Grant (CDBG) Program (in the operating budget) and $11 M in the statutorily dedicated Overcollections Fund (in the capital outlay bill) for Library, Instructional and Scientific Equipment. As of December 18, 2015 the institutions have expended a total of $17.1 M. The breakdown of allocation, expenditure and remaining funds is noted in Table 7.

For FY 16 the prior year transfer amount of $12.15 M from CDBG was increased to $24.3 M and serves as the sole source of funding for the WISE initiative in the operating budget; there are no additional funds appropriated in capital outlay. Since the CDBG appropriation for FY 15 has not been expended and these funds are being reauthorized for FY 16, the appropriation represents an actual $27.85 M reduction for WISE.

Table 7

	General Fund	CDBG	HB2	Total
Total Funding Allocation	$16,850,000	$12,150,000	$11,000,000	$40,000,000
Total Expenditures	$10,683,091	$4,024,942	$2,408,667	$17,116,700
Funds Remaining	$6,166,909	$8,125,058	$8,591,333	$22,883,300

Note: The allocation and expenditure amounts listed above are from 7/1/14 to 12/18/15 and do not include the additional $12.15 M budgeted in FY 16.

Per CDBG guidelines, the additional $12.15 M in CDBG funds is not available until the threshold of $6 M in CDBG expenditures has been reached. Once $6 M is expended in CDBG funds, the additional $12.15 M will be available to institutions that are in the 53 parishes affected by Hurricanes Gustav and Ike. Currently, expenditure plans for the additional $12.15 M have not been submitted by institutions to receive approval by the institution's management board and the Board of Regents (BOR). Institutions will have until the end of FY 19 to spend CDBG funding they receive.

CDBG Limitations

In January 2015, Louisiana's Disaster Recovery Unit (DRU) within the Division of Administration's (DOA) Office of Community Development provided guidelines on the eligibility of requested expenditures as well as the documentation necessary to verify reimbursement requests. Essentially, the guidelines limited expenditures to recruiting, advisory and mentoring support services, need based financial aid (all with a focus on low/moderate income (LMI) students) and equipment and expanded classroom training. Due to the restrictions imposed by CDBG guidelines, some institutions were required to revise their expenditure plans, which delayed expenditures of the FY 15 allocation. Institutions must expend the funds first and submit reimbursement requests to the DRU.

As a result of these restrictions, systems had to revise the means of finance allocations based on the campuses eligibility to receive CDBG funds as well as whether proposed expenditures were aligned with allowable uses of federal funds. Due to the revisions based on CDBG eligibility, certain campuses received either SGF, Overcollections Funds, or both. As a result of restricted use of CDBG funds in hurricane impacted areas only, there are 9 institutions with a combined 13 campuses that are not eligible to participate in the WISE initiative once SGF and Overcollections Funds have been exhausted. They are identified in the Table 8 below.

Table 8

System	Institution	Campus	Parish
LCTCS	Bossier Parish CC	Main Campus	Bossier
LCTCS	Louisiana Delta CC	Ruston Campus	Lincoln
LCTCS	Northwest LA TC	Shreveport-Bossier Campus	Caddo
LCTCS	Northwest LA TC	Mansfield Campus	Desoto
LCTCS	Northwest LA TC	Natchitoches Campus	Natchitoches
LCTCS	Northwest LA TC	Main Campus	Webster
LSU	LSU HSC Shreveport	Main Campus	Caddo
LSU	LSU Shreveport	Main Campus	Caddo
SUS	Southern Shreveport	Main Campus	Caddo
ULS	Grambling State	Main Campus	Lincoln
ULS	Louisiana Tech	Main Campus	Lincoln
ULS	Northwestern State	Main Campus	Natchitoches
ULS	Northwestern State	Shreveport Nursing Campus	Caddo